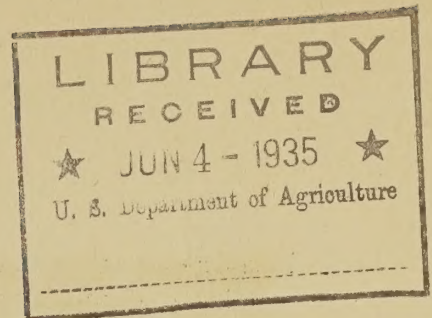


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## INCREASING THE FARMERS' SHARE OF THE NATIONAL INCOME

It has been assumed, from the fact that total farm production varies little from year to year, that restoring the relative purchasing power of unit farm products to pre-war levels would in general restore farm income and its purchasing power to pre-war levels. As far as can be determined from such statistics as are available at present this assumption is approximately correct.

In 1934 the relative purchasing power of unit farm products averaged 73 percent of their pre-war level, and probably about 80 percent if benefit payments are included as additions to farm prices received for current marketings. This may be contrasted with 55 percent for March 1933. The net income from the production of 1934 used for sale or in the farm home also had a relative purchasing power of nearly 80 percent of the pre-war level, compared with about 52 percent in 1932. Similarly, the share of the national income on a per capita basis in 1934 also was about 80 percent of the pre-war share compared with about 60 percent in 1932.

These three measures of the agricultural situation in years prior to 1934 showed considerable divergence and are of course likely to show differences in the future. Each, however, reveals the failure of agriculture to emerge out of the post-war depression during the period of general prosperity 1923-29. In combination, they suggest that the post-1929 depression brought agricultural conditions about twice as much below pre-war levels as the post-war depression did, and that the improvement of 1933 and 1934 has brought agriculture approximately to the conditions that prevailed in 1921. In these generalizations there are of course embodied wide regional and commodity differences.

### Purchasing Power of Farm Products and Benefit Payments

The general index of relative purchasing power of farm products as published currently in the Agricultural Situation does not include benefit payments derived from processing taxes. These payments may be considered as additions to farm prices received for the domestically consumed portions of crops included in adjustment programs. There are now 14 commodities defined as "basic". For seven of these there are adjustment and processing tax programs in effect. The prices of these 14 commodities averaged 52 percent of pre-war in February 1933 compared with 55 percent for all farm products. During the period August 1933 to March 1934 they remained within a range of 73 to 80 percent, and during the last quarter of 1934, due largely to the drought, they averaged close to the pre-war level, as did the average of all commodities.

Processing taxes, considered as additions to prices received on domestic allotments, when paid out as benefit payments, added approximately 30 percent to the December 1934 price level of the "basic" commodities, on which they were collected and about 17 percent to the price level of the 14 "basic" commodities (as shown in fig. 1).



Compared with prices paid by farmers, or "parity" prices, at 126 percent of the pre-war level, these "basic" farm products, exclusive of benefit payments, had a purchasing power of about 80 percent and including benefit payments, 91 percent.

The relative purchasing power of all farm products was 80 percent in December 1934 and 73 percent for the entire year. But if benefit payments, which during 1934 amounted to about 10 percent of gross cash income, be added to the general level of farm prices, farm products for the entire year 1934 may be said to have had a relative purchasing power of about 80 percent.

#### Purchasing Power of "Net" Farm Income

A price-ratio measure of the agricultural situation is of course deficient in several important respects. Costs other than commodity costs are not included; nor are the volume of purchases of goods and services and the volume of sales of farm products included. Had adequate facts for these items been available, it is conceivable that the standard for the Agricultural Adjustment Act might have been a broader one, more nearly an income standard than a price-ratio standard. The necessary data are still lacking, but some approximations may be obtained by piecing together what is available.

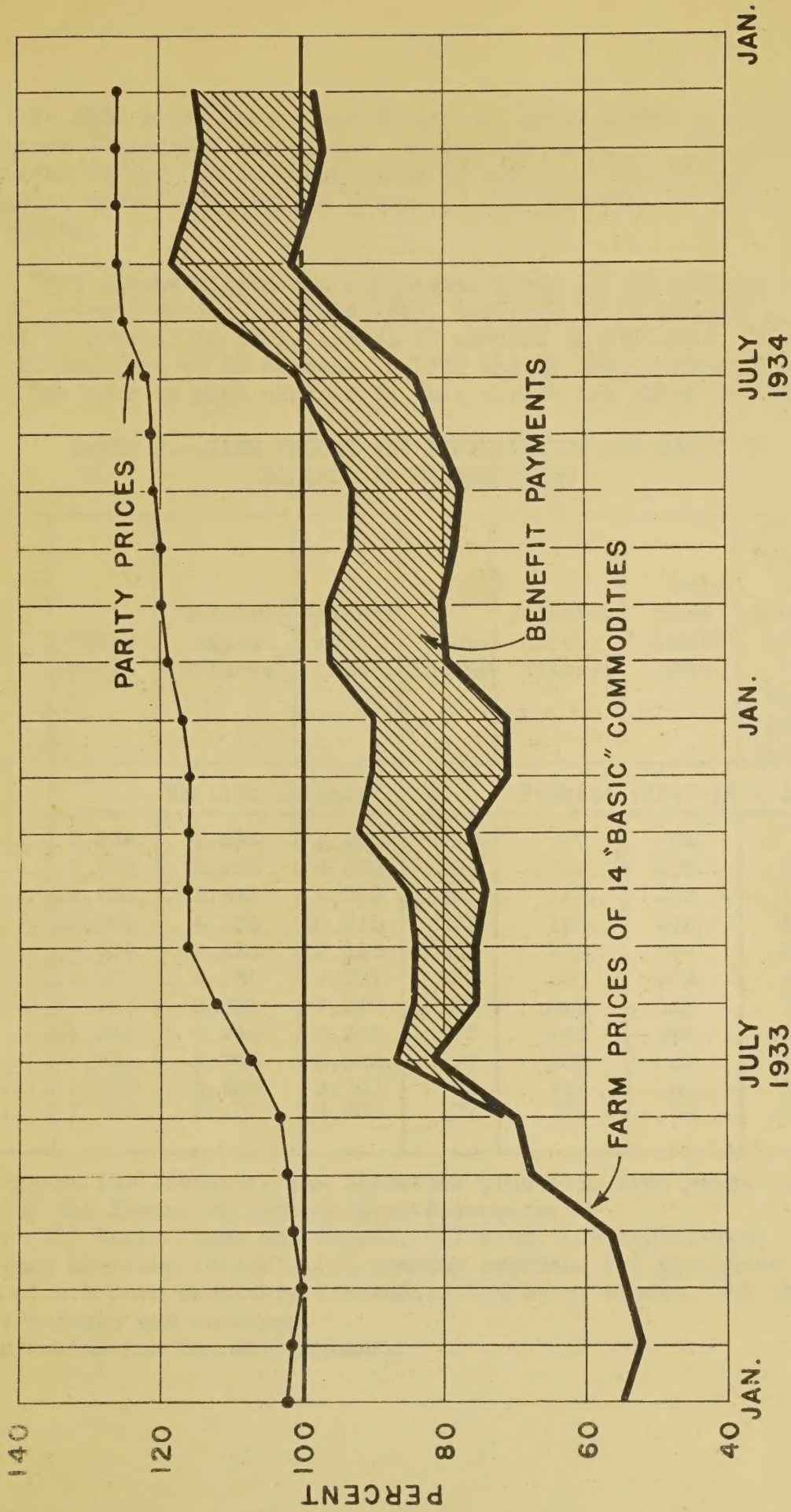
It has been suggested that instead of the index of prices paid by farmers for goods alone, the parity standard should include also the prices of services, such as are represented by farm wage rates, tax payments on farm real estate, and interest payments on farm mortgages. In 1929, when prices paid by farmers averaged 153 percent of pre-war, the inclusion of these cost items would have given an index of 165, or a parity standard of 8 percent higher than prices of goods alone. At the present time, however, when farm wage rates are relatively lower than prices paid by farmers for goods, and interest and taxes payable have declined to 160-170 percent of pre-war instead of 231-243 percent in 1929, the combination of prices of goods and services is only 127 percent compared with 126 percent for commodities alone. This combination is a broader standard, but being essentially a price measure, it does not reflect the changes in the volume purchased from year to year, or as between the post-war and pre-war years.

An attempt to take changes in volume of both sales and purchases into account is made in table 1. From estimates of gross farm income as published by the Bureau of Agricultural Economics, there have been deducted selected expense items which constituted in the post-war years approximately 90 percent of the total production expenditures as estimated by the Bureau, exclusive of the labor of the farm operator and his family. The balance thus obtained is available as return for the farmer's investment for his labor and gives approximately the "net" income available for the goods and services used in the farm home to maintain the farmers' standard of living. Between 1909 and 1929, gross income increased 77 percent, and estimated expenditures increased 141 percent.



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# INDEX OF PARITY PRICES AND PRICES OF 14 "BASIC" COMMODITIES 1910 — 1914 = 100



Farm prices of 14 "basic" commodities were nearly at pre-war levels at the end of 1934. Benefit payments derived from processing taxes on seven commodities were equivalent to about 17% additional on the price level for the 14 commodities.





In 1932 gross income was 21 percent below pre-war, selected expenditures 27 percent above, and the balance available for other purposes 44 percent below. These comparisons do not take into account the inventory gains up to 1920 nor the losses in the post-war and post-1929 depressions.

"Net income attained a purchasing power of 128 percent and 135 percent of pre-war during 1917 and 1918, declined to 65 percent in 1921, reached 97 percent in 1925, and 91-92 percent in 1928-29. In this depression, it declined to 52 percent in 1932 and by 1934 recovered to 79 percent. The year to year changes in this series are shown in figure 2.

Table 1.--FARM INCOME AND EXPENDITURES AND RATIO OF  
BALANCE TO EXPENDITURES

Year	Gross income <sup>1</sup>	Selected expen- ditures <sup>2</sup>	Balance avail- able	Gross income	Selected expen- ditures	Bal- ance avail- able	Prices Paid for com- modities bought for family main- tenance	Ratio of avail- able income to ex- pendi- tures
	Million dollars			Percent (1910-14 = 100)				
1909.....	6,238	1,886	4,352	92	87	95	96	99
1914.....	7,028	2,338	4,690	104	108	102	102	100
1917.....	12,832	3,543	9,289	190	163	203	147	138
1918.....	15,101	4,186	10,915	223	193	238	177	135
1919.....	16,935	4,820	12,115	251	222	264	210	126
1921.....	8,927	4,136	4,791	132	190	104	161	65
1925.....	11,968	4,691	7,277	177	216	159	164	97
1929.....	11,941	5,246	6,695	177	241	146	158	92
1932.....	5,331	2,758	2,573	79	127	56	108	52
1933 <sup>3</sup> .....	6,256	2,553	3,703	93	117	81	109	74
1934 <sup>3</sup> .....	7,200	2,800	4,400	107	129	96	122	79

<sup>1</sup> Calendar years for livestock and livestock products, crop years for crops, as reported by the Bureau of Agricultural Economics.

<sup>2</sup> Includes: (1) Wages (cash and board); (2) feed; (3) fertilizer; (4) taxes; (5) mortgage interest (total); (6) ginning expense; (7) purchases and operating expenses of all farm machinery (including tractors, trucks, and one-half automobiles); harness and saddlery.

<sup>3</sup> Including rental and benefit payments.



The total of these selected items was equivalent to 94 percent of all production expenses for the 10-year period 1924-33, as reported in the August 1934 Crops and Markets, p.315. However, these reported production expenses did not include board as a part of the wage bill. If board (which is among the selected items enumerated above) is added to the total production expenditures reported, then the selected items are equivalent to 90 percent of the total for the 10-year period. The detailed expenditure figures from 1919 through 1933 were furnished by the Bureau of Agricultural Economics. Prior to 1919 estimates are partially those of the Bureau and partially those of the Agricultural Industrial Relations Section of the Agricultural Adjustment Administration.

Table 2. -- AGRICULTURE'S SHARE OF NATIONAL INCOME, 1909-34<sup>1</sup>

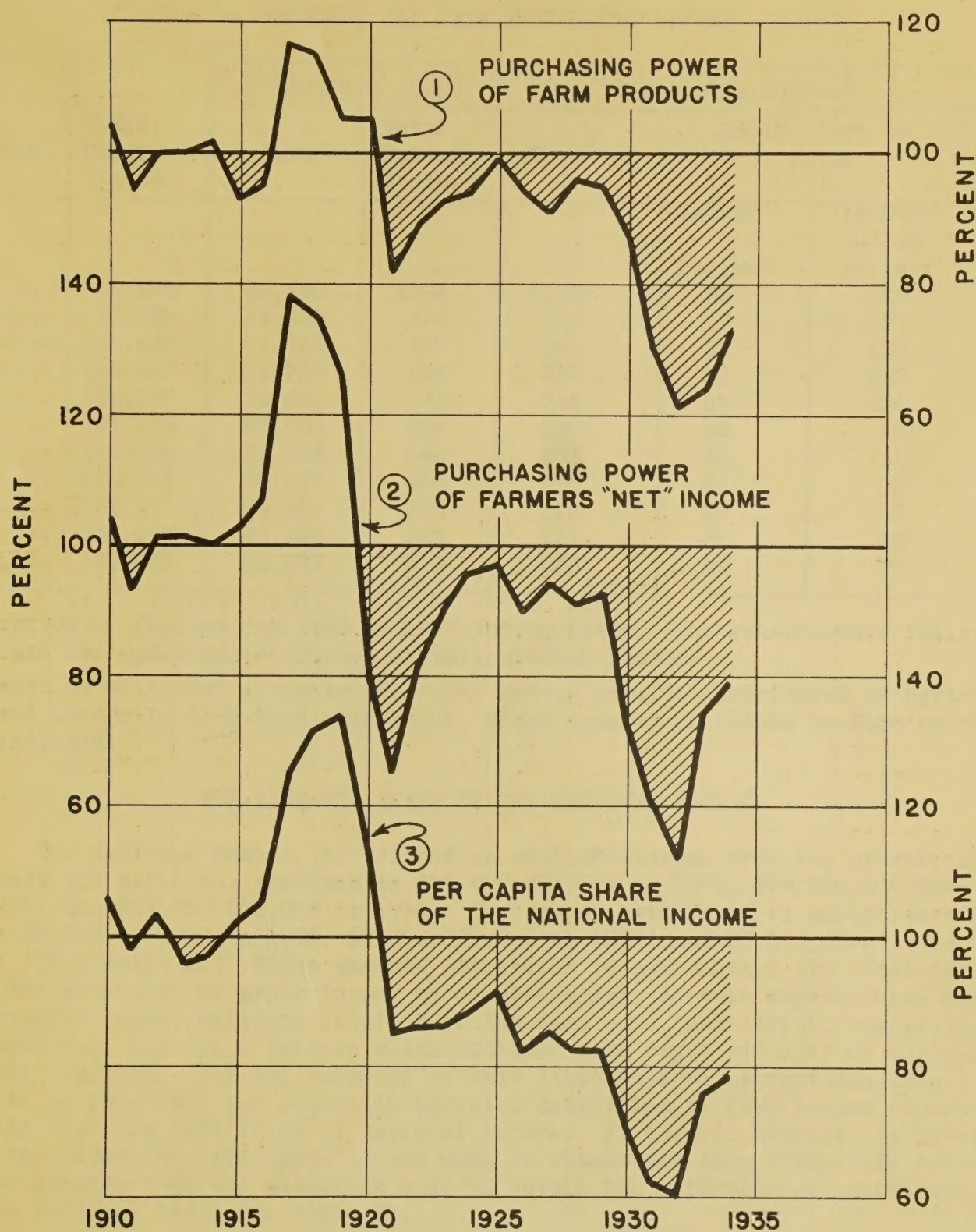
Year	National income	Contributed by agriculture		Year	National income	Contributed by agriculture	
	(Million dollars)	(Million dollars)	Per-cent		(Million dollars)	(Million dollars)	Per-cent
1909.....	26,430	4,988	18.9	1922.....	57,926	7,300	12.6
1910.....	28,024	5,218	18.6	1923.....	65,949	8,026	12.2
1911.....	28,376	4,815	17.0	1924.....	68,461	8,325	12.2
1912.....	30,358	5,294	17.4	1925.....	73,067	9,089	12.4
1913.....	31,909	5,133	16.1	1926.....	74,954	8,214	10.9
1914.....	31,669	5,081	16.0	1927.....	76,007	8,371	11.0
1915.....	33,083	5,488	16.6	1928.....	77,291	8,109	10.5
1916.....	38,884	6,631	17.1	1929.....	79,702	8,254	10.4
1917.....	46,575	9,188	19.7	1930.....	72,890	6,320	8.7
1918.....	54,784	11,205	20.5	1931.....	60,790	4,659	7.7
1919.....	59,550	12,182	20.5	1932.....	47,900	3,582	7.5
1920.....	65,928	11,057	16.8	1933.....	46,030	4,557	9.9
1921.....	55,430	6,967	12.6	1934 <sup>2</sup> .....	51,920	5,287	10.2

<sup>1</sup> Realized income from production of goods and services based on data of (1) National Bureau of Economic Research as published in America's Capacity to Consume by Brookings Institute, (2) U. S. Department of Commerce, and (3) Bureau of Agricultural Economics U. S. D. A. Extension of data for 1929-34 made in Agricultural Adjustment Administration.

<sup>2</sup> Preliminary estimate.



# THREE MEASURES OF THE AGRICULTURAL SITUATION 1910 — 1914 = 100



The relative purchasing power of farm products (when benefit payments are included) and of the farmers' "net" income, as well as the farmers' per capita share of the national income were about 80% of their pre war level in 1934, tho they differed widely in earlier years.





Table 3.--NATIONAL AND FARM INCOME PER CAPITA, 1909-34

Year	Total United States	Population (000)		Per capita income <sup>2</sup>		
		Farm	Total United States	Farm <sup>1</sup>	Ratio farm to total	
					Annual	1910-14
					Percent	= 100
						Percent
1909....	89,882	32,123	\$294	\$155	53	105
1914....	97,220	31,892	326	159	49	97
1917....	101,466	31,753	459	289	63	125
1918....	102,880	31,707	533	353	66	132
1919....	104,296	31,660	571	385	67	134
1921....	107,375	31,703	516	220	43	85
1925....	114,035	31,064	641	293	46	91
1929....	120,694	30,257	660	273	41	82
1932....	124,511	31,241	385	115	30	60
1933....	125,197	32,242	368	141	38	76
1934....	126,059	32,509	412	163	40	79

<sup>1</sup> Population figures for 1909 to 1919 interpolated. Non-census years following 1920 are estimates by the Bureau of Agricultural Economics.

<sup>2</sup> Based on estimates of national income and on amounts contributed by agriculture derived primarily from farm production, other sources of income to farm people not included.

#### THE FARMERS' SHARE OF THE NATIONAL INCOME

The national income, if defined as realized income from the production of goods and services, amounted to \$26,400,000,000 in 1909, \$79,700,000,000 in 1929, and \$51,900,000,000 in 1934. The amount attributed to agriculture is about \$5,000,000,000 in 1909, \$8,300,000,000 in 1929, and \$5,300,000,000 in 1934. (See table 2.) These amounts attributed to agriculture are obtained from the estimates of gross income by deducting only certain expenditures such as property taxes, mortgage interest on the farm home, and certain operating expenditures, leaving a balance which includes farm wages and most of mortgage interest payable. For the purposes of this statement, no attempt has been made to deviate from the generally accepted definition of farm income in conformity with the definition of national income. It should, however, be noted that the deductions from gross income made to obtain net farm income (in table 1) are greater than the deductions made to obtain the agricultural contribution to the national total (in table 2).

The share contributed by agriculture was 18.9 percent in 1909 and 16.0 in 1914. In 1918 and 1919 it rose to 20.5 percent, then declined abruptly to 12.6. In the period 1926-29 the share ranged between 10.4 and 11.0 percent, and then reached the historic low of 7.5 percent in 1932. By 1934, if benefit payments and receipts from the excess sale of livestock in the drought areas are taken into account, it reached 10.2 percent.



The farmer's share of the national income has of course declined during the past century as the percentage of people living on farms or engaged in agriculture declined. It is, therefore, not surprising that the agricultural share of or contribution to the national income was lower in the post-war period than in the 1910-14 period. But during the post-war period it was abnormally low as appears to have been the usual tendency in periods of generally declining prices.

In 1870 when those employed in agriculture constituted 53 percent of the total working population, farmers received about 26.5 percent of the national income. In 1900 when 36 percent were gainfully occupied in agriculture, agriculture's share of the national income was about 21 percent and in 1920, when 26 percent of the gainfully occupied were in agriculture their share of the national income was about 17 percent. The yearly percentages from 1909 to 1934 are given in table 2 and in figure 3.

These trends, since 1900, are shown in figure 3. In a somewhat modified form, the relation between the income share and the population share is shown in figure 2 as derived from table 3. Here the farmers' share of the national income has been computed on a per capita basis instead of on the basis of gainfully occupied. The per capita farm income included in the national total was divided by the per capita income for the entire population and then expressed as percentages of the 1910-14 average. In 1909, the per capita income for the entire population of 90,000,000 was \$294, and for the farm population of 32,000,000 \$155 or 53 percent of the average for all.

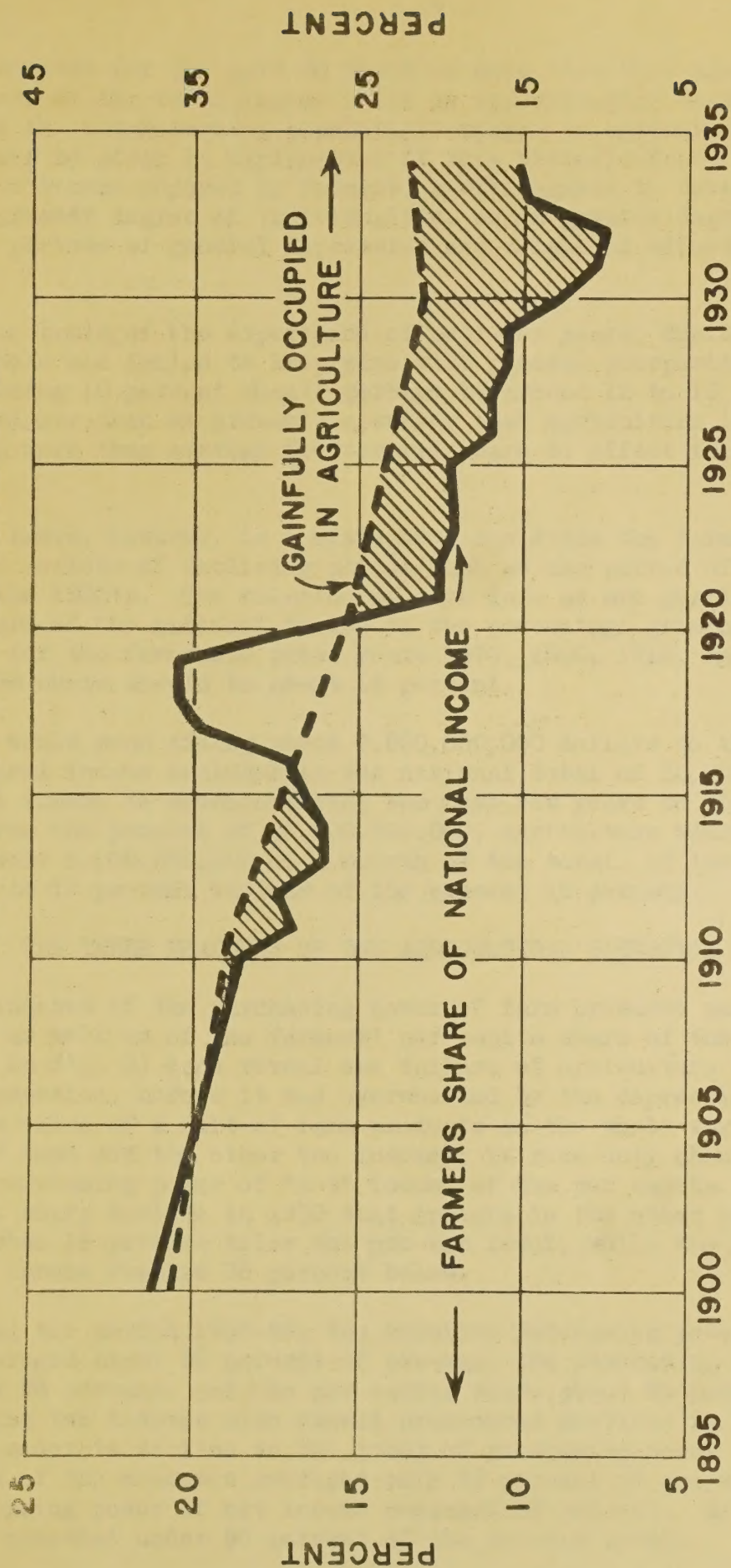
In 1932 the average for the entire population of nearly 125,000,000 was \$385 and for the 31,000,000 of farm population, \$115, or 30 percent of the average for all. The per capita share of the farm population rose to 132 and 134 percent of the pre-war share, declined to about 60 percent and by 1934 it advanced to 79 percent.

The share going to agriculture should have declined, in view of the decline in the proportion of our working population engaged in agriculture. But the post-war drop from the relatively high levels of 1917-19 apparently not only carried the farmers' share down too far, but set in motion a continuous decline at the subnormal level, checked only by the 1933-34 recovery. The relatively low post-war level will probably be found to be related to the increase in the proportion of the consumers' dollar going to distribution costs including labor, particularly in the case of livestock products, and to the decline in the foreign demand for our export crops.

What is a fair share of the national income for agriculture? In answering the question of a fair share for agriculture, we need to start with the facts as they have prevailed in the past decades and in the more recent years, but it should be borne in mind that this does not answer the question as to what should be the farmers' share -- that involves consideration of what type of balance between agriculture and industry and the standards of rural and urban life that the country desires to promote.



# THE FARMERS SHARE OF THE NATIONAL INCOME AND PERCENT GAINFULLY OCCUPIED IN AGRICULTURE



The farmers' share of the national income has declined during the past century as the farm population and the number gainfully occupied in agriculture became a smaller proportion of the total. After the war, the farmers' share of the national income fell to an abnormally low level and has been only partly restored by the 1933 and 1934 agricultural improvement.







Our records for the past 80 years or more show that agriculture tends to get a share of the total income which is approximately about 60 percent of the share of the total working population engaged in agriculture. A number of reasons may be given in explanation of this historic fact, such as nonmonetary forms of income enjoyed by farmers, a willingness to take a smaller return for a greater degree of individualism, and a greater degree of economic security in periods of general depression and a lack of effective bargaining power.

On the basis of the experience of post-war years, during which agriculture as a whole had failed to keep pace with general prosperity, the 1934 share instead of being 10 percent should perhaps be around 12 to 13 percent, or about 25 percent higher than at present, assuming that agriculture is not entitled to something more than average for several years to offset the recent subnormal years.

This basis, however, is a misleading one since the farmers' share tends to be low in periods of declining prices such as the period of the 1880's and 1890's and the 1930's. The relation of such data as are available on the farmers' share of the national income to the percentage gainfully occupied in agriculture for the favorable price years 1870, 1900, 1910, and 1920 suggests that the 1934 share should be about 15 percent.

This would mean adding about 2,500,000,000 dollars to the 5,200,000,000 of agricultural income included in the national total of 52,000,000,000. Were the national income to advance during the next few years to 75,000,000,000, or a gain from the present of 23,000,000,000, agriculture would need an increase of about 6,000,000,000 or a fourth of the total, if its share were to be restored to 15 percent instead of the present 10 percent.

#### THE THREE MEASURES OF THE AGRICULTURAL SITUATION COMPARED

The indexes of the purchasing power of farm products and of the farmers' net income, as well as of the farmers' per capita share of the national income (shown in fig. 2) each reveal the failure of agriculture to recover from the 1921 depression, before it was overwhelmed by the depression after 1929. The exchange value of a unit of farm products on the whole varied less from 1910 to 1929 than did the other two indexes; it rose only about half as high as did the purchasing power of "net" income or the per capita share. It did not show the sharp decline in 1920 that appears in the other two indexes. In 1921 it reached 18 percent below the pre-war level, while the purchasing power of net farm income reached 35 percent below.

During the period 1923-29, the relative purchasing power of farm products averaged about 95 percent of pre-war, the purchasing power of net income about 93 percent, and the per capita share about 86 percent. As in 1920, the last two indexes also showed pronounced declines in 1930, compared with only a moderate decline in the index of purchasing power of farm products. By 1933, two of the measures averaged only 60 percent of pre-war, while the index of purchasing power of net income averaged 52 percent. By 1934, each showed advances to somewhat under 80 percent of the pre-war level.



On the mechanistic basis of action and reaction, the farm prosperity of the years 1915-19 was about offset by the subnormal conditions during the post-war years 1920-27. The subnormal conditions that have prevailed since 1927, and in intensified form since 1930, call for a period of several years of agricultural prosperity well above the pre-war levels.

To attain such conditions farmers must look forward to (1) balancing their production as between the several branches of agriculture so as to undo the damage done by the 1934 drought; (2) an increase in industrial production as a basis for increased city purchasing power and a larger exchange value of farm products for industrial products, the latter to be brought about either by a rising level of farm prices, or a declining level of industrial prices or a combination of the two; (3) reopening our foreign markets for wheat, cotton, and pork, and increasing foreign purchasing power for the other farm products we export; (4) lowering those costs of distribution which now take an inordinate share of the spread between farm and city retail prices.

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